NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

FOR IMMEDIATE RELEASE **Contact: Mitchel Benson**
July 17, 2003 **(916) 653-4052**

TREASURER ANGELIDES AND LOCAL PUBLIC SAFETY OFFICERS URGE FRESNO SENATOR POOCHIGIAN TO CLOSE TAX LOOPHOLE FOR COMPANIES THAT RELOCATE OFFSHORE – IN NAME ONLY – TO AVOID PAYING CALIFORNIA TAXES

SB 1067 CLOSES LOOPHOLE IN CALIFORNIA TAX LAW ALLOWING CORPORATIONS TO SKIP OUT ON FAIR SHARE OF TAXES; TREASURER SAYS PASSING BILL IS VITAL IN LIGHT OF STATE'S BUDGET DEFICIT

FRESNO, CA – California State Treasurer Phil Angelides today urged State Sen. Charles Poochigian, R-Fresno, to support legislation to close a loophole that now allows publicly traded U.S. corporations that relocate – in name only – to offshore tax havens like Bermuda. The bill, SB 1067, was authored by Senator Jackie Speier, D-Hillsborough, and is sponsored by Treasurer Angelides.

Angelides was joined by local public safety officials as the State began its seventeenth day without a budget.

"This corporate conduct is particularly unconscionable at the very time when our State is struggling to cover the costs of police, firefighters, education and mental health," Angelides said, "and at a time when our nation must shoulder the heavy responsibilities of national defense and homeland security." The Treasurer added that while "these expatriate companies want to enjoy the benefits of operating in the world's strongest economy, they are not willing to meet their corporate responsibilities."

Also joining Angelides at the news conference was Art Pulaski, Executive Secretary-Treasurer of the California Labor Federation, AFL-CIO, who announced a public advocacy campaign that includes a radio ad in support of SB 1067. The 60-second ad urges Fresnans to call Poochigian to urge him to support the bill. Last week, Poochigian voted against the bill in the Senate Revenue and Taxation Committee. The bill passed the committee by a 4-3 vote and will soon be heard before the Senate Appropriations Committee.

"The State of California needs the millions of dollars in state taxes that these companies rightfully owe," Pulaski said. "California businesses are being unjustly forced to compete with corporations who set up mailboxes in these offshore tax havens."

According to the Franchise Tax Board, California is now losing about $10 million each year in tax revenue, and will lose an estimated $132 million over the next 10 years as a result of corporate expatriations that already have occurred. As of June 30, 18 public companies have expatriated to offshore tax havens to avoid paying taxes. Included in this list are corporations like Tyco International and Ingersoll-Rand.

If the number of corporations that expatriate continues to grow at the same rate of the past 10 years, California will lose an estimated $180 million in tax revenues over the next 10 years. The U.S. Treasury Department has noted “a marked increase in the frequency, size and profile” of corporate relocations – on paper only – to offshore tax havens such as Bermuda and the Cayman Islands.

SB 1067 will stem these losses to California by producing revenues of approximately $99 million that would otherwise be lost to expatriations.

“These companies cannot have it both ways,” Speier said in a statement. “They can’t pretend to be American companies except when it comes time to pay their fair share of taxes. We must close this loophole immediately.”

SB 1067 is part of a larger effort by Treasurer Angelides to crack down on expatriate U.S. corporations.

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STATE OF CALIFORNIA Phil Angelides, Treasurer

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Paying Their Fair Share:

Ensuring Expatriate Corporations Don't Abuse Tax Shelters
At the Expense of California Taxpayers
SB 1067
(Speier)

FACT SHEET

Summary

SB 1067, authored by Senator Jackie Speier and sponsored by State Treasurer Phil Angelides, will close loopholes that now allow publicly traded U.S. corporations that relocate offshore to avoid paying their fair share of California taxes. According to the Franchise Tax Board, California is now losing $10 million in annual tax revenue – and will lose an estimated $132 million over the next 10 years – as the result of corporate expatriations that have already occurred. If the number of corporations that expatriate continues to grow at the rate of the past 10 years, California will lose an estimated $180 million in tax revenues over the next 10 years. This bill would stem these losses by producing revenues of approximately $99 million that would otherwise be lost to expatriations.

Background

The U.S. Treasury Department has noted "a marked increase recently in the frequency, size and profile" of corporate relocations – on paper only – to offshore tax havens such as Bermuda and the Cayman Islands. The recent wave of corporate scandals has cast a harsh light on irresponsible corporate actions like "corporate expatriations" or "corporate inversions." A small handful of U.S.-based companies, out of more than 6,000 publicly traded U.S. corporations, have restructured as foreign corporations in lax offshore havens, enabling them to avoid federal and State taxes and skirt legal protections for investors while continuing to reap the benefits of ostensibly operating as U.S. companies. Simply put, this practice is not fair to all other publicly traded companies that meet their corporate responsibilities, and that pay their fair share of State and federal corporate income taxes.

Federal and State Governments Lose Tax Revenues Due to Expatriations

These paper relocations enable the resulting "expatriate corporations" to avoid paying their fair share of U.S. and California taxes. And these tax revenue losses come at the very time when the State is struggling to cover the costs of police, firefighters, education and mental health, and the nation must shoulder the heavy responsibilities of national defense and homeland security. Many expatriate corporations transform significant amounts of their worldwide income from U.S.-based income to foreign-based income through "earnings stripping" transactions. Such transactions involve the U.S.-based subsidiary making deductible payments (such as interest, management fee, or royalty payments) to the new sheltered "foreign" parent. These payments, then, reduce the effective rate of U.S. and California taxation by reducing the net income subject to taxes, and by allowing corporations to elect to calculate California taxes based on a certain share of the corporation's U.S.-based (or water's edge) income.

Under California's current corporate tax system, corporations with operations in the State can choose between two methods to compute the income on which they will pay their State corporate income taxes – the "worldwide"[1] method or the "water's edge" [2] method. The Franchise Tax Board estimates that approximately 75 percent of expatriate corporations filing in California elect the "water's edge" method. Because an expatriate corporation can transform a large portion of its worldwide income from U.S.-based income to foreign-based income, continuing to allow the use of the water's edge method permits these companies to reduce the net income on which the California share of corporate income is based and taxed.

What Can California Do to Overcome Abuses by Expatriate Corporations?

The State Treasurer's Office is sponsoring SB 1067 to prohibit expatriate corporations from utilizing the water's edge election under California corporate tax law to shield certain foreign based income from California tax. This legislation would effectively preclude these companies from artificially excluding U.S.-based income from taxation.

The legislation would counter abuses by expatriate corporations and ensure that these corporations pay their fair share of California State corporate income taxes. The bill would require that, under certain conditions, corporations that expatriate would treat the income and factors attributable to their headquarters corporation as inside the water's edge for California tax purposes. The bill would have no adverse impact on the corporate tax payments of other corporations.

Additional features of the bill include:

- The bill will "grandfather" existing taxpayer agreements between the State and expatriate corporations that already have elected the water's edge method. The bill would prevent the extension of those agreements beyond their current seven-year terms.

- The bill would affect only expatriate corporations that are, or would seek to become, water's edge filers, and other water's edge filers that seek to expatriate.

Co-sponsors and Supporters:

State Treasurer Phil Angelides, California Conference of Machinists, California Labor Federation (AFL-CIO), American Federation of State, County and Municipal Employees (AFSCME), California Conference Board of the Amalgamated Transit Union, California School Employees Association (CSEA), California Teamsters Public Affairs Council, Engineers & Scientists of California, Hotel Employees, Restaurant Employees International Union, AFL-CIO, Professional and Technical Engineers Local 20, IFPTE, AFL-CIO, State Department of Forestry Firefighters, United Food & Commercial Workers Region 8 States Council, United Steel Workers of America, California Association of Highway Patrolmen (CAHP), the California Sheriffs' Association, the Peace Officers Research Association of California, Consumer Attorneys of California, the Foundation for Taxpayer and Consumers Rights and the California Taxpayer Reform Association.

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[1] Under the worldwide method, California corporate taxes are paid on a certain share of the combined income of the corporation, earned both in the U.S. and abroad.

[2] Under the water's edge method, California corporate taxes are paid on a certain share of U.S.-based (or "water's edge) income of the corporation only, based on certain presumptions specified in State law on how the U.S.-based income must be determined.

PUBLICLY HELD U.S. CORPORATIONS IDENTIFIED AS EXPATRIATING TO OFFSHORE TAX HAVENS

(Partial list based on information available as of 06/30/03)

Company Name	Ticker Symbol	Exchange	Domestic Headquarters	Expatriation Date	Offshore Haven
Accenture, Ltd.	ACN	NYSE	Chicago, IL	2001	Bermuda
Cooper Industries	CBE	NYSE	Houston, TX	2002	Bermuda
Everest Reinsurance Group	RE	NYSE	Liberty Corner, NJ	2000	Bermuda
Foster Wheeler, Ltd.	FWC	NYSE	Clinton, NJ	2001	Bermuda
GlobalSantaFe (Global Marine)	GSF	NYSE	Houston, TX	2001	Cayman
Helen of Troy, Ltd.	HELE	NASDAQ	El Paso, TX	1994	Bermuda
Ingersoll-Rand	IR	NYSE	Woodcliff Lake, NJ	2002	Bermuda
Leucadia National Corp *	LUK	NYSE	New York, NY	Pending	Pending
McDermott International, Inc	MDR	NYSE	New Orleans, LA	1983	Panama
Nabors Industries	NBR	AMEX	Houston, TX	2002	Bermuda
Noble Corporation (Drilling)	NE	NYSE	Sugar Land, TX	2002	Cayman
PXRE Group, Ltd.	PXT	NYSE	Edison, NJ	1999	Bermuda
Seagate Technology	STX	NYSE	Scotts Valley, CA	2002	Cayman
Transocean, Inc.	RIG	NYSE	Houston, TX	1999	Cayman
Tyco International	TYC	NYSE	Exeter, NH	1997	Bermuda
Weatherford International	WFT	NYSE	Houston, TX	2002	Bermuda
White Mountains Insurance	WTM	NYSE	Hanover, NH	1999	Bermuda
Xoma Corporation	XOMA	NASDAQ	Berkeley, CA	1999	Bermuda

Sources: Office of U.S. Representative Lloyd Doggett (Texas) based on Library of Congress records; Office of U.S. Representative Richard Neal (Massachusetts) based on various news sources; Bloomberg, recent SEC filings.

Note: Chart reflects *public* *companies* identified as of June 30, 2003, and is not reflective of the status of any company (public or private) after that date.

Investment actions by Pooled Money Investment Account, CalPERS, and CalSTRS would be contingent on independent verification.

* Leucadia National Corporation has until 2005 to move offshore, but has not actually done so.

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CHRONOLOGY OF ACTIONS TAKEN BY STATE TREASURER PHIL ANGELIDES AGAINST EXPATRIATE CORPORATIONS AS OF JULY 17, 2003

Following is a chronology of recent actions taken by State Treasurer Phil Angelides to crack down on 'expatriates,' or publicly traded U.S. corporations that relocate – in name only – to offshore havens to evade U.S. taxes and skirt legal protections for investors:

- In July 2002, Angelides banned the State's $53 billion Pooled Money Investment Account (PMIA) from investing in publicly held U.S. corporations that reincorporate in offshore tax havens. The PMIA is comprised of State and local taxpayer funds, of which more than $10 billion is invested in corporate securities that must be on a State-approved list. Since last July, the Treasurer has removed Ingersoll-Rand, a company that expatriated to Bermuda, from the list of eligible investments.

- Also in July 2002, the Treasurer announced that he was prohibiting the State Treasurer's Office from contracting with or engaging in any other business dealings with expatriate U.S. companies.

- In November 2002, the Treasurer successfully urged CalPERS (the California Public Employees' Retirement System) the nation's largest public pension fund, to co-sponsor and support shareholder resolutions that call on U.S. corporate expatriates such as Tyco International Ltd., McDermott International Inc., Ingersoll-Rand Co. Ltd., and Nabors Industries Ltd., to reincorporate back in the United States. In December, the Treasurer did the same with CalSTRS (the California State Teachers' Retirement System), the nation's third largest public pension fund. CalPERS and CalSTRS represent a combined $246 billion in assets (as of July 8, 2003), including about $299 million in investments in publicly held expatriate corporations (as of June 30, 2003). The Treasurer sits on the boards of both pension funds.

- In December 2002, Angelides and the top investment officers of nine other states, including New York, Massachusetts and Colorado, sent a letter to Standard & Poor's, urging S&P to undertake a formal review to remove 10 offshore companies from the S&P 500 Index. S&P describes the 500 Index as the 'premier index for large cap *U.S. stocks.'* (emphasis added)

- In February 2003, the Treasurer successfully urged the California Earthquake Authority (CEA) to adopt a policy banning contracts with expatriate corporations. The CEA policy applies to all contracts, including those with re-insurance companies, who enter into insurance contracts with the CEA valued at more than $1 billion each year. The Treasurer sits on the CEA board.

- Also in February 2003, the Treasurer, joined by public pension funds, state- and local-government investment officials and labor unions, launched the 'Come Home to America' campaign, urging expatriate companies to reincorporate back in the United States. The coalition's first target was a shareholder resolution that called on Tyco, now headquartered in Bermuda, to 'take the measures necessary' to reincorporate back in the U.S. On March 6, shareholders representing 26.4 percent of the company's stock voted in favor, an impressive outcome for an insurgent shareholder campaign opposed by company management. In 1999, a similar shareholder resolution urging Tyco's re-incorporation back to the United States garnered only 6.7 percent of the vote.

- In March 2003, as another result of the ‘Come Home to America Campaign,’ McDermott International agreed to review a return to the U.S. from Panama.

- Also in March 2003, State Treasurer Phil Angelides sponsored the introduction of SB 640, authored by Senator John Burton (D-San Francisco) that would prohibit the State of California and any of its agencies from contracting with companies that are publicly held U.S. expatriate corporations. Supporters of this bill include the California Labor Federation AFL-CIO, California Conference of Machinists, the American Federation of State, County and Municipal Employees (AFSCME), the California School Employees Association (CSEA), Engineers & Scientists of California, the State Department of Forestry Firefighters, the California Association of Highway Patrolmen (CAHP), the California Sheriffs' Association, the Peace Officers Research Association of California, Consumer Attorneys of California, the Foundation for Taxpayer and Consumers Rights, California Taxpayer Reform Association, the California Teamsters and Lt. Governor Cruz Bustamante, among many others. SB 640 passed in the Senate and is currently pending in the Assembly Appropriations Committee.

- Also in March 2003, State Treasurer Phil Angelides sponsored the introduction of SB 1067, authored by Senator Jackie Speier (D-Hillsborough) which would close loopholes that now allow publicly traded U.S. corporations that relocate offshore to avoid paying their fair share of California taxes. According to the Franchise Tax Board, California is now losing $10 million in annual tax revenue – and will lose an estimated $132 million over the next 10 years – as the result of corporate expatriations that have already occurred. This bill would stem these losses by producing revenues of approximately $99 million that would otherwise be lost to expatriations. SB 1067 passed the Senate Revenue and Taxation Committee last week by a vote of 4-3 and will soon be heard in the Senate Appropriations Committee. Supporters of this bill include the California Conference of Machinists, the American Federation of State, County and Municipal Employees (AFSCME), the California School Employees Association (CSEA), Engineers & Scientists of California, the State Department of Forestry Firefighters, the California Association of Highway Patrolmen (CAHP), the California Sheriffs' Association, the Peace Officers Research Association of California, Consumer Attorneys of California, the Foundation for Taxpayer and Consumers Rights and the California Taxpayer Reform Association, among many others.

- In May 2003, due to an insurgent shareholder campaign by the ‘Come Home to America Campaign,’ 41.4 percent of Ingersoll Rand’s shareholders, another corporate expatriate, voted to support a resolution urging management to reincorporate from Bermuda back to the U.S. This percentage of support is by far the highest by shareholders on this issue to date.